STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NOS. RPU-2012-0002 TF-2012-0374

ORDER APPROVING SETTLEMENT AGREEMENT AND CANCELING HEARING

(Issued November 26, 2012)

PROCEDURAL BACKGROUND

On May 25, 2012, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) an application for a general increase in natural gas rates and proposed gas tariffs identified as TF-2012-0374 and TF-2012-0375. In TF-2012-0374, IPL proposed to increase its Iowa gas rates to produce a permanent annual jurisdictional revenue increase of approximately $14,785,156, or an overall annual revenue increase of 5.6 percent. In TF-2012-0375, IPL filed proposed gas tariffs designed to produce annual revenue of approximately $8,612,094 on a temporary basis. The temporary gas tariffs became effective June 4, 2012, pursuant to Iowa Code § 476.6(10)(b). IPL filed prepared testimony, exhibits, and information required by 199 IAC chapter 26 in support of its general rate increase application. The general rate increase application was identified as Docket No. RPU-2012-0002.

On June 13, 2012, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an objection to the rate application and a request that the application be docketed. Consumer Advocate stated that the application was voluminous and complex and would require a thorough investigation.

On June 22, 2012, the Board issued an order in Docket No. RPU-2012-0002 in which it suspended the proposed tariffs in TF-2012-0374, established a procedural schedule, and scheduled a hearing to consider the general rate increase request. Pursuant to the procedural schedule, petitions to intervene were to be filed on or before July 17, 2012. On July 16, 2012, Archer Daniels Midland Company and Equistar Chemicals, L.P. (Iowa Consumers Group), filed a petition to intervene. Attorneys for the Iowa Consumers Group filed a request to appear before the Board pro hac vice.

On July 30, 2012, the Board issued an order granting the Iowa Consumers Group intervention, granting the requests to appear pro hac vice, and requesting additional information from IPL. On August 15, 2012, IPL filed the additional information requested by the Board. On August 16, 2012, IPL, Consumer Advocate, and Iowa Consumers Group filed a Settlement Agreement (Settlement) that purports to resolve all of the outstanding issues regarding the general rate increase request. The parties to the Settlement requested that the Board approve the Settlement in its entirety and cancel the procedural schedule, including the hearing, or schedule an earlier hearing to address any questions the Board may have.

On September 21, 2012, the Board issued an order requesting that IPL and the other parties to the Settlement provide responses to Board questions about certain revised tariff provisions agreed to in the Settlement. On October 5, 2012, IPL filed responses to the September 21, 2012, order.

SETTLEMENT AGREEMENT

The Settlement filed on August 16, 2012, is designed to resolve all issues in the natural gas rate increase application filed by IPL. The Settlement provides that it will not become effective unless and until the Board enters an order approving the Settlement in its entirety without condition or modification. The substantive provisions in the Settlement are as follows:

1. IPL's natural gas rate base for the purposes of the Settlement is $254,781,749. IPL's return on equity is 10 percent and, after reflecting parent company debt, IPL's overall rate of return for its rate base is 7.764 percent.

2. IPL shall be entitled to an annual Iowa jurisdictional natural gas revenue increase in the amount of $10,500,000 based on a total Iowa natural gas revenue requirement of $273,619,813. The revenue requirement will not be adjusted to reflect either IPL's actual rate case expense or the amounts assessed by either the Board or Consumer Advocate related to the rate case. IPL should not be required to make any rate case expense filings required by 199 IAC 26.4.

3. If the Board enters an order approving the Settlement in its entirety without condition or modification, no refund shall be due to any of IPL's customers pursuant to the Corporate Undertaking required for temporary rates.

4. The increase in retail revenue requirement should be allocated to IPL's major customer classes on an across-the-board uniform increase of 12.95 percent to the non-fuel non-EECR (Energy Efficiency Cost Recovery) revenues resulting in an overall increase of 3.99 percent on a total bill basis. The following monthly customer charges shall apply:

Residential Customer Charge	$13
General Service Class	$30
Large General Service	$225

5. The Board should approve the proposed tariff language changes to IPL's Pipeline Corridor Transportation Service and Transport of Customer-Owned Gas tariffs and proposed changes to the interruptible provisions of the General Service and Large General Service tariffs proposed in IPL's initial application.

6. The Board should approve the proposed Tax Benefit Rider (TBR) for an initial three years subject to the following changes: (1) the TBR should be applicable to all customer classes on an across-the-board basis; (2) the specific TBR credit amounts to be applied and the estimated amounts to be flowed through to the customer classes are provided in Attachment C to the Settlement; and (3) the parties agree that after the initial three-year period, there should be a reconciliation.

BOARD ANALYSIS

Board rules at 199 IAC 7.18 provide that the Board will not approve a settlement unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. The Board addresses the substantive provisions of the Settlement based upon this standard.

1. Cost of Capital

Cost of capital issues include the return on equity, the capital structure, and the use of double leverage. In the Settlement, the parties agreed to a 10 percent return on equity and 7.764 percent overall rate of return. The overall rate of return reflects the application of a double leverage calculation. The calculation of the return on equity and overall rate of return agreed to in the Settlement are shown in Attachment A, Settlement Schedule E.

The only evidence in the record regarding a reasonable return on equity is the testimony of IPL witness Avera. In his testimony, Avera recommended a return on equity of 10.9 percent based on his analysis using the discounted cash flow model, the capital asset pricing model, and the risk premium method, as well as the expected earnings approach and a flotation cost adjustment of 20 basis points.

The return on equity agreed to in the Settlement of 10 percent is a 90 basis point reduction from Avera's recommended return on equity and a 40 basis point reduction from the 10.4 percent return on equity used by IPL for setting interim rates. A 10 percent return on equity is the same return on equity approved in 2011 by the Board in IPL’s last electric rate case, Docket No. RPU-2010-0001. A 10 percent return on equity is also the return on equity the Board approved on October 8, 2012, for the threshold for revenue sharing in MidAmerican Energy Company's most recent rate increase proceeding, Docket No. RPU-2012-0001.

The capital structure agreed to in the Settlement is similar to the 13-month average capital structure used by IPL to support the initial rate increase request. The capitalization ratio for long-term debt used by IPL in the initial rate increase request was 46.180 percent and is 46.213 percent in the Settlement. The common equity ratio was 48.720 percent in the initial rate request and is 48.785 percent in the Settlement. The differences are likely attributable to updating for actual information at the time of the Settlement.

The Settlement includes weighted average cost of capital of 7.764 percent compared to 8.47 percent included in the initial rate increase request. This reflects the reduction in the cost of long-term debt from 5.88 percent to 5.77 percent, the reduction in the return on equity to 10 percent, and the application of double leverage.

Based upon the review of the cost of capital agreed to in the Settlement and the evidence in the record, the Board finds that the return on equity, the capital structure, and the use of double leverage agreed to in the Settlement are reasonable. An allowable 10 percent return on equity is consistent with recent Board decisions and current market conditions. The capital structure is similar to the capital structure presented by IPL in the initial case and is a reasonable capital structure for a regulated utility. Use of double leverage is consistent with Board precedent.

2. Settlement Rate Design

The Settlement specifies an overall increase of $10.5 million to be applied as a uniform percentage increase of 12.95 percent across customer classes based on class non-fuel and non-EECR rate revenues. The Settlement also specifies the following customer charges and each customer class's volumetric per-therm charges as compared to the pre-case rates.

Customer Charge/Class	Pre-Case Charge	Settlement Charge
Residential	$10	$13
General Service	$19.94	$30
Large General Service	$182.53	$225

Volumetric Charge/Class	Pre-Case Charge	Settlement Charge
Residential	$0.16970	$0.16445
General Service	$0.16280	$0.16322
Large General Service	$0.06730	$0.07554

For the LGS-Contract Demand class, the demand rate and volumetric per-therm rate are both increased by a uniform 12.95 percent. The Settlement adopts the billing units initially proposed by IPL, without reference to any of the specific pro-forma adjustments proposed by IPL.

Although the Settlement does not adopt a Class Cost-of-Service Study (CCOS), IPL's initial proposed CCOS provides a basis for confirming the general reasonableness of the Settlement customer charges, based on the costs classified as customer costs in the CCOS. Assuming the $4.3 million reduction in IPL's initial revenue requirement agreed to in the Settlement is proportionately subtracted from class customer costs in the CCOS study and assuming the maximum possible impact on customer costs, the Settlement customer charges do not exceed the resulting class customer costs on an average per-customer basis and are reasonable on that basis.

3. Temporary Rates

In the testimony supporting IPL's initial rate increase request, IPL stated that previous Board policy had been to make no rate design or tariff changes in temporary rates. IPL explained that for this reason, IPL designed temporary rates in this case based on uniform percentage adjustments as accepted by the Board in Docket No. RPU-02-7 and did not implement the proposed Tax Benefit Rider (TBR) as part of temporary rates. However, a review of the Board's final order in Docket No. RPU-02-7 shows that the Board did not base temporary rates in that docket on a uniform percentage adjustment, but rather on the three rate design criteria for temporary rates first established in the Board's "Order Setting Temporary Rates And Approving Corporate Undertaking" issued October 20, 1995, in Docket No. RPU-95-8, an earlier general rate increase proceeding. The three criteria were applied by the Board most recently in Docket No. RPU-2011-0001, a general rate increase proceeding filed by Iowa-American Water Company.

In the "Order Setting Temporary Rates And Approving Corporate Undertaking" issued October 4, 2002, in Docket No. RPU-02-7, the Board stated that IPL had agreed to accept a temporary rate design that generally applies three criteria for designing temporary rates: (1) rate codes with proposed final rate reductions receive no temporary increases; (2) no rate code receives a temporary increase larger than the increase proposed for final rates; and (3) the temporary increases are otherwise applied on a uniform percentage basis to monthly non-gas cost/non-EECR rate elements.

In the October 4, 2002, order, the Board recognized that the application of the first two criteria might mean that some rates would not comply with the third criteria. The Board found that this result was acceptable and unavoidable due to the interrelationships between full service and transportation rate codes and rate structures. The Board recognized that using the three criteria for temporary rate design might result in some rate codes receiving more than the uniform increase.

IPL stated in the August 15, 2012, response that the Board should allow different criteria for temporary rates implemented ten days after the filing for a general rate increase request pursuant to Iowa Code § 476.6(10)(b). IPL stated that the temporary rates implemented pursuant to Iowa Code § 476.6(10)(b) do not allow an opportunity for Board resolution of any potential conflicts among the three rate design criteria before implementation. Given the potential need for Board interpretation in resolving conflicts, IPL contended that a requirement of strict adherence to all three temporary rate design criteria should not be viewed as an established regulatory principle for purposes of Iowa Code § 476.6(10)(b). According to IPL, requiring adherence to a regulatory principle that requires further Board interpretation essentially negates the legislative purpose of Iowa Code § 476.6(10)(b).

As recognized by the Board in Docket No. RPU-02-7, the application of the first two temporary rate design criteria in some instances may mean that some rates will not comply with the third criteria. The Board finds this result acceptable and unavoidable due to the interrelationships between full service and transportation rate codes and rate structures. The Board understands that under the temporary rate design using the three criteria, some rate codes may receive more than the uniform increase. This problem is not present in the current proceeding since temporary rates could have been implemented in a straightforward manner using the three criteria without any conflict or inconsistency.

The Board's adoption of the three criteria was not meant as a perfect solution to all rate design issues that might arise in temporary rates. The intent for applying these three criteria is to minimize instances of customers paying substantially higher temporary rates than their proposed final rates. Application of the three criteria is designed to prevent examples of obvious disconnect between what the utility proposes for final rates versus the rates the utility implemented under temporary authority. The Board considers use of the three criteria an established regulatory principle even in those cases where the utility is proposing a new CCOS and rate design.

Even though the temporary rates implemented by IPL on June 4, 2012, did not utilize a rate design based upon the three criteria, that rate design will be superseded by the uniform percentage adjustment rate design agreed to in the Settlement. In addition, the Settlement provides that no refunds are due customers based upon the difference between permanent rates and the temporary rates put into effect pursuant to Iowa Code § 476.6(10)(b). The Settlement agreement also precludes any refunds based upon a Board determination that the temporary rates were not based upon previously established regulatory principles, also allowed by § 476.6(10)(b).

Since the Settlement provides that there will be no refunds pursuant to Iowa Code § 476.6(10)(b), the issue of whether the rate design used by IPL in implementing temporary rates was based upon previously-established regulatory principles is moot. However, in future cases, IPL should be cognizant that implementing temporary rates using a rate design other than a rate design based upon the three criteria approved by the Board could result in refunds.

4. Weather Normalization Adjustment

Natural gas utilities in Iowa weather normalize the natural gas sales volumes for the weather-sensitive customer classes through the annual purchased gas adjustment (PGA) filings and as part of a request for a general increase in natural gas rates. The Settlement in this case did not specifically address the issue of weather normalization or billing determinants and adopts the weather normalization revenue adjustment and billing determinants initially proposed by IPL for both interim and final rates.

In its initial testimony in this case, IPL explained that its weather normalization adjustment was calculated using a multiple linear regression analysis model. Model inputs included actual and 30-year normal heating-degree-days (HDDs) published by the National Oceanic and Atmospheric Administration (NOAA) for the same eight weather stations used in IPL's last rate case and its annual PGA forecast filing. IPL applied its weather normalization model to all rate codes in the residential class, the weather sensitive rate codes in the General Service class, and to all small volume transportation rate codes.

All of the investor-owned natural gas utilities in Iowa use what has become known as the PGA methodology in their annual PGA filings and the Board also has expressed support for use of the PGA methodology in general rate increase proceedings. However, the results of other methods have been approved when they have been part of a settlement, as in this case.

On July 30, 2012, the Board issued an order directing IPL to file a weather normalization calculation using the methodology that it uses in its PGA filings, which IPL provided on August 15, 2012. There are similarities and differences between the weather normalization calculation that supports the Settlement versus the PGA methodology IPL filed on August 15, 2012. Similarities include the use of the same weather stations and the use of NOAA's 30-year normal HDDs. The major difference between the two models is the complexity, with the PGA methodology being less complex and more easily verifiable. Both models weather normalize the same rate codes; however, the rate codes used by IPL are different from those normalized annually in the PGA filings. The rate codes for small volume transportation customers are typically not included in the PGA methodology, since the PGA does not apply to transportation customers.

The weather normalization agreed to in the Settlement will result in a calculation of volumes that is different than the volumes derived from use of the PGA weather normalization methodology. The differences between the Settlement weather normalization methodology and the PGA methodology are not significant enough in this proceeding to render the Settlement weather normalization unreasonable. In future cases, IPL should file a weather normalization calculation using the PGA methodology applied to the same rate codes as in the PGA, if IPL uses a different weather normalization methodology in its request for a general rate increase.

5. Tax Benefit Rider

The Settlement adopts IPL's initial proposal to flow through to customers approximately $36 million in expected tax savings over a three-year period by means of a Tax Benefit Rider (TBR). This will effectively offset the proposed general rate increase for three years. Under its initial proposal, IPL would have front-loaded the TBR by flowing through 48 percent of the estimated benefits in the first year, 35 percent the second year, and 17 percent the third year. The initial proposal would have allocated the benefits to the customer classes receiving rate increases, thus phasing in the rate increases over a three-year period.

The TBR agreed to in the Settlement is also designed to offset rate increases by customer class, but will spread the benefits in three equal installments of $12 million each over three years. The $12 million credit will more than offset the final $10.5 million increase agreed to in the Settlement, thus delaying the rate increase.

As in IPL's initial proposal, the offsetting benefits in the Settlement TBR are to be allocated in proportion to the class rate increases and are specifically designed to offset the customer charge increases of the Residential and General Service classes and the demand rate increase of the LGS-Contract Demand class. Also, as in IPL's initial proposal, the TBR offset credits will not be deducted from base tariff rates, but rather will be reflected in a separate TBR rider. The TBR offset credits will be shown as a separate line item on customer bills.

IPL stated there were three categories of tax benefits: (1) proceeds from the 2008 flood of $4 million; (2) mixed service costs of $14 million; and (3) repair expenditures of $18 million. The $4 million relating to proceeds from the flood had been resolved by IRS audit in 2010. The $14 million relating to the mixed service costs category had also largely been resolved in 2010, but might be impacted by the final outcome of repair expenditures. The $18 million in the repair expenditures category was expected to be resolved in the first quarter of 2013.

IPL stated that extending the TBR refunds over three years provides assurance that benefits would not be flowed back to customers before the final amounts were known from the IRS, thus minimizing, but not entirely eliminating, the risk that IPL might over-credit customers and have to recover over-credited amounts back from customers. IPL explained that the $36 million in total tax benefits was an estimate and that the final amounts, relating to different projects, would be determined according to the timing and outcome of IRS audits. Accordingly, the benefit amounts estimated for the second and third year of the TBR would be subject to adjustment before and during implementation, as the final amounts become known.

IPL witness Vognsen describes how during the course of the three-year TBR period, if the final amount sustained by IRS audit is less than the targeted amount, but greater than the amount already credited to IPL customers, IPL would adjust the TBR over the remaining time frame to reflect the lower amount and, if the final sustained amount turned out to be lower than the amount already credited to customers, IPL would discontinue the TBR immediately and proceed to the final reconciliation. In the final reconciliation process, IPL would either refund any remaining uncredited benefit amounts to customers over a 12-month period or collect from customers any over-credited amounts over a 24-month period, after which IPL would terminate the TBR. The Settlement provides that IPL would conduct a final reconciliation process either at the conclusion of the three-year TBR period or sooner, if the TBR is ended sooner.

The Board finds that the TBR mechanism agreed to in the Settlement for returning the tax savings to IPL customers is reasonable. Limiting total customer credits to an equal amount over a three-year period reduces the possibility of customers being required to pay back any credits in excess of the tax savings. By spreading the TBR benefits across three equal annual installments of $12 million each, rather than front-loading the benefits in the first year as originally proposed, IPL reduces the risk that it will over-credit customers before the outcome of the IRS audit on repair expenditures is known. IPL has stated that it will either reduce or terminate the TBR if the final audit benefits are less than expected. To provide additional assurance that customers will not be credited amounts greater than IPL receives from the IRS, the Board will require IPL to file reports every six months on the status of the IRS audit, the amounts returned to IPL, and the amounts credited to customers.

6. Tariff Provisions

On September 21, 2012, the Board issued an order requesting IPL and the other parties to the Settlement respond to certain questions about the tariff changes agreed to in the Settlement. The Board addresses those proposed tariff revisions where the Board still has concerns below.

A. The Board stated that it is not clear about the reference to "producer's act of negligence" in the Gas Service/Transportation Agreements. The Board pointed out there does not appear to be another reference to "producer" in the agreement or a definition of the term.

In response, IPL stated that the term "producer" means the actual entity providing the natural gas, either IPL, in the case of system-supplied gas to a customer, or the competitive natural gas provider, in the case of a transportation customer. IPL uses the term "provider" to describe these entities.

Analysis: The Board suggests that IPL change the term "producer" to "provider" in the tariffs filed in compliance with a Board order approving the Settlement. The term "provider" seems to more accurately reflect the entities described by IPL.

B. The Board stated that it appears there are only two differences between the Gas Service Agreement in Section 14.06 and the Gas Service Agreement—With Take or Pay in Section 14.07. One difference is the Gas Service Agreement is for a term of one year and the Gas Service Agreement—With Take or Pay is for a term of three years. The other difference is the addition of the following provision to the Gas Service Agreement—With Take or Pay:

> Section 4.c. In the event facilities are extended by the Company to provide service, after the second full year of service, the Customer's billings for the second year of service will be reviewed to determine base revenue (total rate schedule charges, less charges applicable to energy efficiency programs and cost of gas supply). If Customer was billed less than the minimum annual base

> revenue (facility investment divided by three), required to support the $____ of facility extension (total facility extension investment less any initial advance or contribution), Customer will be assessed an advance or contribution, supplemental to any previous advance or contribution, to reduce the investment in the facility extension to the level supported by Customer's second-year base revenue. Notwithstanding the foregoing, in the event Company and Customer enter into a take or pay or contribution in aid of construction agreement for the extension of any facilities, the provisions of any such take or pay or contribution in aid of construction agreement shall be controlling in the event of a conflict with this Agreement.

The Board asked IPL to explain the purpose for a separate Gas Service Agreement—With Take or Pay, explain the purpose of subparagraph 4.c, and explain why the term of this agreement is three years.

In response, IPL explained that the Take or Pay agreement proposed in the revised tariff addresses those situations where a seasonal customer that has significant fluctuations in usage, such as a grain dryer, requests a distribution main extension. Since Board rules require the utility to provide the distribution main extension at no cost to the customer if the construction costs for the extension are less than or equal to three times estimated base revenue, and IPL has difficulty estimating annual usage because of the variability of usage, the Take or Pay agreement allows IPL to delay the calculation of the three times annual revenue until after two years of actual usage. IPL stated that the Take or Pay agreement reduces the risk of loss for IPL and is a more favorable alternative for the seasonal customer. IPL stated that the Take or Pay agreement is only offered if the distribution main extension exceeds $15,000 and the customer is seasonal.

Analysis: The Board understands that the Take or Pay agreement may meet the requirements of 199 IAC 19.3(10)"f" as a more favorable arrangement to pay for a distribution main extension. However, the language in the revised tariff does not limit the Take or Pay agreement to those situations described by IPL, i.e., costs are over $15,000 and the customer is seasonal. It would be better practice if IPL would rename the Take or Pay agreement as a "Gas Service Agreement—Seasonal" and include the two criteria described by IPL for a customer being offered the agreement, i.e., distribution main extension cost over $15,000 and the customer is seasonal.

C. IPL currently requires all new interruptible gas customers to install telemetering equipment that allows IPL to verify compliance when IPL calls for service interruptions. Legacy customers (interruptible customers prior to August 22, 2003) are currently exempt from this requirement. IPL proposed to remove the exemption for legacy customers and require all interruptible customers to have telemetering equipment. IPL stated that those customers affected will be given a reasonable amount of time to comply and will pay for the new telemetering through IPL's proposed Excess Facilities Charge. The proposed Excess Facilities Charge is similar to the Excess Facilities Charge in IPL's electric tariff and is proposed to be added to Residential, General Service, and Large General Service. The Excess Facilities Charge is proposed to be a monthly charge equal to 1.6 percent of IPL's investment cost for any facilities that are in excess of those required for standard service. IPL stated that the Excess Facilities Charge provision provides customers an option when they request the installation of facilities beyond those afforded by IPL's standard tariff offering.

In the September 21, 2012, order, the Board expressed concerns about the reasonableness of requiring legacy customers to install telemetry equipment and the application of the Excess Facilities Charge to interruptible customers. In the September 21, 2012, order, the Board asked IPL to provide certain information regarding the number of interruptible customers with telemetering equipment, the cost of telemetering equipment, the number of interruptions called by IPL, what options a customer is given to pay for the telemetering equipment, and the total amount collected from the customer for telemetering equipment.

In the October 5, 2012, response, IPL stated that it currently has eight system gas interruptible customers that have telemetry devices and only one of those customers is paying an Excess Facilities Charge. The customers that are not paying the Excess Facilities Charge are former transportation customers that were paying the charge as transportation customers, but the charge is no longer billed since these customers have moved to system gas under the interruptible tariff. IPL provided a chart showing the number of interruptible customers, small and large, for each year since 2003.

IPL stated that the cost of telemetry equipment for the one interruptible customer paying for telemetering was $1,374.78. IPL stated that it only offers an Excess Facilities Charge where a customer is installing telemetering equipment. The one customer paying for telemetering is paying an excess facilities charge of $21.99 per month. The customer pays this charge because the customer became an interruptible customer in 2006. The total amount paid by the customer pursuant to the Excess Facilities Charge is $1,517.31.

IPL stated that it is currently in the planning process for upgrading its natural gas handheld meter reading devices for the Spring/Summer of 2013. IPL is developing the incremental cost of these new devices. Since these new devices will eliminate the need for telemetering equipment for interruptible customers, IPL stated that it is amenable to language changes in the tariff to reflect the new technology. The information provided by IPL shows that the number of interruptible customers has declined every year since 2004. According to the information provided by IPL, it has 414 interruptible customers in 2012.

Analysis: The information provided by IPL shows that the number of IPL's interruptible customers has steadily declined since 2003. Given this decline, the small number of interruptible customers in total and the fact that IPL has not interrupted service since before 2003, IPL could likely address its operational needs to monitor customer interruptions by some means other than requiring interruptible customers to incur the expense of telemetering equipment. IPL managed curtailment of distribution system interruptible customers for many years prior to the availability of telemetry equipment during a period when interruptions were more frequent than they are now. Further, the customer data IPL provided also shows that in 2012 approximately 75 percent of IPL's interruptible customers are considered small customers. The additional costs of telemetering equipment may have a significant financial impact on these customers.

The Board understands from IPL's October 5, 2012, response that IPL is amenable to a change in the proposed language regarding telemetry being required for interruptible customers as agreed to in the Settlement. IPL indicates that new technology may eventually make telemetry equipment unnecessary. Since telemetry equipment may become unnecessary and in light of the fact that legacy customers are not currently required to have telemetering equipment, the Board does not consider the proposed tariff provisions allowing IPL to require telemetry equipment for legacy customers to be reasonable. In addition, IPL has not interrupted service since before 2003 and IPL states that it only has one interruptible customer currently paying for telemetry equipment through an Excess Facilities Charge.

In light of these facts and IPL's statement that it is amenable to changes to these proposed tariff provisions, IPL should withdraw the proposed revisions to its interruptible service that require existing or legacy interruptible customers to install telemetering equipment. IPL should also withdraw the proposed Excess Facilities Charge provisions in the Residential, General Service, Large General Service – Contract Demand, and Large General Service tariffs, and the Gas Service Agreement and Gas Service Agreement-Take or Pay, since it appears that the charge is specifically related to the installation of telemetering equipment.

Withdrawal of the requirement for telemetry removes the primary reason for the Excess Facilities Charge. In addition, the language in the Excess Facilities Charge does not appear to be limited to customers with telemetry equipment. The Board suggests that IPL review the need for an Excess Facilities Charge and provide a clearer explanation regarding the types of facilities the charge would be applied to if IPL proposes a similar charge in the future.

IPL should also consider ceasing to charge the one interruptible customer an Excess Facilities Charge. This appears to be treatment of one customer differently than similarly-situated customers and IPL does not have specific language in its natural gas tariff that allows IPL to charge an Excess Facilities Charge. The information provided by IPL shows that the total amount that one customer has paid through the excess facilities payments is more than the cost of the installation of the telemetry equipment.

Retention of the current tariff provisions applicable to interruptible service will allow IPL to propose any required tariff revisions once it is ready to install the new technology that will eliminate the need for telemetry for interruptible customers. This also will allow current legacy customers to continue under the current tariff without being charged an Excess Facilities Charge when there appears to be little support for the charge in the record and there are no current tariff provisions that include such a charge for interruptible customers.

OVERALL SETTLEMENT

The Board finds that the overall Settlement, including the increase in revenue and rates agreed to in the Settlement, is reasonable based upon the record in this case and the Board decision regarding the tariff provisions discussed above. The Settlement provides an overall annual increase of $10.5 million to be applied as a uniform percentage increase of 12.95 percent across customer classes based on class non-fuel and non-EECR rate revenues of $82,429,442.90. The overall revenue increase is 3.99 percent based upon the annual revenue increase of $10.5 million and the total annual revenue requirement of $263,047,271.79, which includes the cost of gas.

The Board also finds that the TBR as agreed to in the Settlement is a reasonable method of returning the tax savings to customers. Customers will see the rate increase approved in this proceeding and the TBR credit on their bills and the resulting total amount for customer charges will be less than the customer charge before this proceeding was initiated. The TBR credit will most likely continue for three years, so the increased customer charge will be offset by the tax savings credit until four years after the final rates from this proceeding go into effect. After the TBR is ended, customer charges will be at the level approved in this order, if nothing else changes.

As discussed above, the Board has some concerns about the tariff provisions agreed to in the Settlement. Since IPL expressed its acceptance of changes to the proposed tariff provisions regarding interruptible customers and the Board concerns with the proposed tariff provisions will be addressed with the withdrawal of the proposed revisions to interruptible service provisions, the Board finds that the Settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The Settlement Agreement filed by Interstate Power and Light Company, the Consumer Advocate Division of the Department of Justice, Archer Daniels Midland Company, and Equistar Chemicals, L.P., on August 16, 2012, is approved, subject to the withdrawal of the tariff provisions described in this order.

2. The proposed tariffs filed by Interstate Power and Light Company on May 25, 2012, identified as TF-2012-0374, and made subject to investigation in this proceeding, are rejected as unjust, unreasonable, and unlawful.

3. Interstate Power and Light Company shall file six-month reports regarding the Tax Benefit Rider with the information described in this order.

4. Interstate Power and Light Company shall file compliance tariffs consistent with the Settlement Agreement and this order within 20 days of the date this order is issued.

5. The hearing scheduled to begin December 3, 2012, is canceled.

6. This order constitutes the final decision of the Board in Docket No. RPU-2012-0002.

UTILITIES BOARD

/s/ Elizabeth S. Jacobs

/s/ Darrell Hanson

ATTEST:

/s/ Joan Conrad
Executive Secretary

/s/ Swati A. Dandekar

Dated at Des Moines, Iowa, this 26th day of November 2012.